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GOVERNMENT LOANS TO FARMERS.

AMONG the planks in the Omaha platform of the Populist Party was a declaration in favor of government loans to the people at two per cent per annum.¹ The debit and credit relationship between government and citizen to which such a system would give rise is similar to that which grew out of our early policy in the sale of the public domain, and the history of that policy suggests the probable results if the end of the above declaration were realized. Accordingly, Part I of the following study will treat of the sale of the public lands on credit, while Part II will point out the bearing of this experiment upon government loans and will consider some other features of the subject.

I.

The second land act, approved May 10, 1800, required that one-fourth part of the purchase money shall be paid within forty days after the day of sale ; [the remainder to be paid in three equal payments in two, three and four years, with interest at six per cent a year]. . . . If any tract shall not be completely paid for within one year after the date of the last payment, . . . [it shall be sold] for a price not less than the whole arrears due thereon, with the expenses of sale ; the surplus, if any, shall be returned to the original purchaser, or to his legal representative ; but if the sum due, with interest, be not bidden and paid, then the land shall revert to the United States, [and all moneys paid therefor shall be forfeited].²

Very few questioned the wisdom of the policy embodied in this act. In his report upon the public lands, Hamilton favored it for tracts more than ten miles square, provided security

¹ McVey, "The Populist Movement," *Economic Studies*, American Economic Association, I, 142, 163; see also Drew, "The Present Farmer's Movement," *POLITICAL SCIENCE QUARTERLY*, VI, 291-297 (June, 1891).

² *Annals of Congress*, 1799-1801, Appendix, 1517, 1518.

other than the land itself were given.¹ Moreover, it had the prestige of precedent in its favor. It had been employed by the proprietary government of Pennsylvania,² and more recently by New York³ and Kentucky.⁴ The sales to the Ohio Company⁵ and to John Cleves Symmes⁶ both involved its application. A credit of one year on one-half of the purchase money was also given by the first land act of Congress in 1796.⁷ In the debates preceding the passage of this act, the credit system received the most meagre consideration. It is in keeping with the general purpose of the act, however, to suppose that the object was to swell the receipts of the treasury. Credit was a lure alike to the speculator and to the settler. It enabled the former to assume risks altogether out of proportion to his capital; and to the latter it held out the hope of paying for a home in large part out of the returns of his labor. But that credit was less suited to a government selling land to citizens than to the business transactions of everyday life appears to have occurred to only a few.⁸

The actual working of the system soon revealed its defects, as disclosed by the following table⁹:

YEAR.	ACRES SOLD.	DUE FROM INDIVIDUALS.	ARREARAGE.
1803	199,080	\$1,092,390.17	\$ 40,218.35
1804	373,611	1,434,212.50	176,778.02
1805	619,266	2,094,305.85	384,799.11
1806	473,211	2,245,557.58	243,933.18
1807	358,372	2,265,219.92	315,312.12
1808	213,472	2,180,425.86	586,817.05
1809	231,044	2,186,186.71	886,841.92
1810	235,879	2,036,837.37	702,557.91
1811	288,930	1,970,912.91	656,603.64

¹ American State Papers, Public Lands, I, 8, 9.

² Annals of Congress, 1789-91, 628.

³ Hildreth, History of the United States, IV, 581.

⁴ Annals of Congress, 1796-97, 2209; *Ibid.*, 1820, 1893.

⁵ Donaldson, The Public Domain, p. 197.

⁶ American State Papers, Public Lands, I, 75, 128.

⁷ Annals of Congress, 1796-97, Appendix, 2907, 2908.

⁸ *Ibid.*, 1789-91, 1069, 1070; *Ibid.*, 1796-97, 2209, 2210.

⁹ Compiled from American State Papers, Finance, II, and Public Lands, I, 909.

The above table covers sales south as well as north of the Ohio River. There

These figures indicate the rapid evolution of a debtor class upon the public domain. From 1803 to 1805 the debt almost doubled. More noteworthy is the remarkable growth of arrearages. In 1809 these were twenty-two times greater than in 1803. The movement is subject to fluctuations, but the general trend is unmistakable. The amount due and the arrearage are doubtless connected with the yearly acreage sold. Thus, the great increase in sales ending with 1807 resulted in an enormous growth in both of these items; likewise the falling off in sales following that year resulted in their decline. Much the greater part of the debt overdue rested upon those who were hopelessly involved. For example, nearly three-fourths of the arrearage in Ohio in 1805 was due from those who had paid but one instalment.¹ The number of tracts in the same state annually offered for sale on account of failure in payment was estimated in 1812 at 1020.² The forfeitures accruing to the United States, July 1, 1813, to September 30, 1814, amounted to \$23,589.33. In the greater number of cases this loss fell upon purchasers of a quarter rather than of a half or a whole section.³

The credit system was early recognized as ill-advised. In 1797 a motion extending the time of credit from one to four years was defeated in the House committee of the whole.⁴ The opposition argued that "nothing more would be received of the purchasers than the first deposit if so long a credit were given," and that "instead of money they should have petitions sent in for a prolonging of the time of payment."

were none of the former till 1803. In that year land offices were opened in Mississippi territory, but no statement of sales appears to have been made till 1807. The figures for that year include all sales since the opening of the land offices. The principal facts are as follows:

YEAR.	ACRES SOLD.	DUE FROM INDIVIDUALS.	ARREARAGE.
1807	74,192	\$111,913.50	
1808	17,892	138,752.85	
1809	87,635	273,482.85	\$ 36,166.88
1810	77,035	390,195.33	80,413.13
1811	81,913	474,541.23	148,190.72

¹ State Papers, Public Lands, I, 287; II, 730, 731.

² *Ibid.*, II, 441. ³ *Ibid.*, II, 891. ⁴ Annals of Congress, 1796-97, 2209.

Though a supporter of this motion, Gallatin, in 1804, 1806 and 1808, recommended the abolition of the credit system. The House committee on public lands, in 1806, 1809 and 1812, made a similar recommendation, and the Senate committee, in 1812, expressed the same opinion.¹ As the dealings of debtor and creditor with each other were always subject to more or less friction, it was considered eminently unwise to put such a strain upon the relationship of government and citizen. A government that becomes the debtor of large numbers of its citizens strengthens itself by the ties of self-interest; but when the case is reversed, the fealty of the average citizen is weakened. This fact was appreciated both within and without Congress. In 1806 Gallatin said: "The accumulation of a debt . . . which is every day increasing in amount and extending to a greater number of persons may ultimately create . . . a powerful interest hostile to the federal government." But more than two thousand heads of families in Ohio were public land debtors in 1805. The number in all the states and territories in 1812 was seven to ten thousand.² The act of 1804 endeavored to check the rapidly growing evil of delinquencies, by exempting from interest all payments made when due, while otherwise interest was to be charged from the date of purchase.³ How inadequate this remedy proved is shown by the table given above.

In 1809 Congress began to pass various acts of relief, extending the times of payment.⁴ With few exceptions, these applied only to persons holding 640 acres or less, in the hope of favoring the settler as opposed to the speculator. Such measures, however, were mere palliatives. Leaving the credit system intact, they did not remove the cause of the disease, but rather aggravated the difficulty by encouraging the opinion that the government was a lenient creditor. That they afforded relief to some is not denied; but in so doing they intensified the trouble they were devised to alleviate. By holding out to venturesome

¹ State Papers, Public Lands, I, 183, 287, 910; II, 730-31, 439-41.

² *Ibid.*, I, 287; II, 440.

³ Annals of Congress, 1803-1804, p. 1290.

⁴ Donaldson, *The Public Domain*, p. 205; Annals of Congress, 1820, cols. 1869, 1891.

spirits the hope of gain, coupled with a guaranty against loss, they put a premium upon the spread of the credit system. As a consequence, it extended more and more over Ohio, Indiana, Illinois, Missouri, Alabama, Mississippi, Louisiana and Michigan.¹

Nor was this experience of the national government exceptional. In Tennessee the land debt south of the French Broad and Holston was a source of annoyance to the state for twenty years,² and by 1833 the expense of legislating upon petitions for relief exceeded the amount still due.³ The experience of Kentucky in exploiting her public domain is even more to the point. In this state relief was granted again and again, until it came to be expected almost as a matter of course. In the Green river country any one opposed to such a measure stood but little chance of election to the legislature. The influence of the debt also extended to other legislation. The votes necessary to enact measures that otherwise would have failed were procured in exchange for votes granting indulgence to land debtors. Legislation thus tended to become a matter of bargain and sale rather than of public policy.⁴

Whenever government ceases to act as the arbiter of differences, and permits itself to become a party to them, it inevitably compromises the dignity of its position. In the sale of the public lands the limited means of many to whom credit was extended⁵ made this especially true. The House committee on the subject, in 1806, said :

Although no sales have yet taken place, there is no doubt but some must be made, or the lands revert to the United States, if the law is rigidly executed. . . . It appears doubtful whether . . . an attempt to sell would be attended with success. . . . Few men are willing to incur the resentment of their neighbors, by bidding for their property at a public vendue, even when other neighbors are the creditors ; and, when the public is concerned, scarcely a man will be found

¹ Donaldson, *op. cit.*, p. 205.

² Senate Journal, Tennessee, 1829, p. 103.

³ House Journal, Tennessee, 1833-34, p. 11.

⁴ Annals of Congress, 1819-20, 447 ; 1820, 1875.

⁵ Flint, *Recollections of the Last Ten Years* (1826), pp. 40, 41.

hardy enough to do it. The lands will, therefore, in many instances, revert to the government, encumbered by the occupancy of a tenant who ought to be evicted before another sale should be made. It might be added that few strangers would run the risk of bidding for property at a vendue, when the united interest of the whole neighborhood was opposed to the sale.¹

In 1812 the Senate committee observed :

There can scarcely be imagined a situation better calculated to rouse the feelings or mislead the mind of an individual whose hopes have been blasted in a purchase of land. He has made his purchase, and with difficulty paid his first instalment. . . . The credit allowed by law (five years) expires ; his land is advertised for sale ; he is threatened with the loss of all he has paid, whether one, two or three instalments. But this is not all ; his labor for five years which has put his land in a state of cultivation, and placed around him the comforts of life where a wilderness existed before, is also to be lost, and his family turned out of a home to seek some new situation.²

The year 1814 witnessed the beginning of a great increase in the sales of the public lands. In that year 864,536 acres were sold, or 245,370 more than in any year since 1796. During the succeeding five years the sales assumed vast proportions, in 1819 reaching 5,475,648 acres. These figures were not surpassed till 1835. Still more noteworthy was the increase in the purchase money offered. During the thirteen years ending with 1813 this averaged \$735,292. In 1814 it leaped to \$1,784,560, an increase of forty-four per cent over any year preceding ; within the next four years it twice doubled, and in 1819 reached \$17,681,794. Moreover, in 1818 and 1819 there was a marked increase in the average price offered per acre. In no year prior to this had it reached \$2.40, but during these years it rose to \$3.16. More than two-thirds of all the public land disposed of up to June 30, 1820, was sold during the six years ending with 1819 ; and more than three-fourths of all purchase money offered was for this land. The most remarkable increase took place in Alabama and Mississippi. In these states the sales, 1816-19, averaged 1,000,000 acres, fifteen

¹ State Papers, Public Lands, I, 286, 287.

² *Ibid.*, II, 440.

times the average from 1807 to 1816. Of \$17,656,549 purchase money, ninety-seven per cent was for sales during the four years prior to 1820. The average price per acre for 1818 and 1819 was \$4.51.¹

The land office at Huntsville, Ala., was the centre of most reckless land speculation. The lands sold at that office, January 1, to September 30, 1818, averaged \$7.78, and for the year ending September 30, 1819, \$6.16 per acre. Sales at ten to twenty dollars per acre were common; at twenty-five to thirty dollars, somewhat less common; and occasionally as high as seventy, seventy-eight and even one hundred and twenty dollars were bid.² In one instance a planter bought a quarter-section of cotton land at one hundred and twenty-seven dollars per acre. Speculation in town sites and lots was of the wildest kind: a company paid two hundred and fifty-one dollars an acre for a half-quarter section, and as much as \$3500 were bid for one lot.³ In a memorial to Congress in 1830, the general assembly of Alabama said:

In the years 1818, 1819, and 1820, . . . competition for Alabama land was without a parallel. Sales were made at prices so far above the true value of the lands or above that value at which they had been estimated by reasonable men, that the people of the surrounding country, not engaged in the transactions of the day, attributed it to a frenzy among the bidders. Good lands were then bid off at prices varying from thirty to fifty dollars per acre, when lands of the like quality, equally productive and suitable for cultivation, could be purchased in the neighboring states at or about one-fourth part of what it was agreed to be paid for them in Alabama.⁴

St. Charles, Missouri, witnessed a similar experience.

A very large tract of land was cried for sale . . . and the only limits and bounds given were, that it was thirty miles north of St. Louis. . . .

¹ State Papers, Public Lands, VIII, 2, and III, 420; Report of Commissioner of General Land Office, 1841, p. 22.

² Niles's *Register*, 1817, XIII, 62; Annals of Congress, 1819-20, p. 446; *Ibid.*, 1818, XV, 116; State Papers, Finance, III, 287, 432; Public Lands, III, 555-8; IV, 805; V, 377, 383-5.

³ McMaster, *History of the People of the United States*, IV, 396.

⁴ State Papers, Public Lands, VI, 142, 143.

But a purchaser soon appeared, who bid off the tract. . . . There were people who offered immense tracts of land the titles to which were contingent. . . . Often the same tract was offered for sale by two and even three claimants. The whole county of St. Charles, containing a number of thousands of inhabitants, was offered for sale by what was called the Clamorgan claim, and thirteen hundred dollars were paid [for it] on the spot.¹

Some factors contributing to this mania for speculation were the high prices for produce, the profuse emissions of bank notes, the Yazoo landscrip, emigration to the West and the auction system. As for prices, cotton sold at from twenty to thirty cents per pound, and the prices of tobacco and breadstuffs were also high.²

Excessive issues of bank notes were promoted by the fact that, during and immediately after the War of 1812, the notes of banks receiving and reissuing treasury notes were accepted in payment of all public dues. Besides, payment for public lands was a constant drain upon the money of the West, and the temptation to fill the vacuum with over-issues was strong. The bills of many local banks made room for themselves by driving from general circulation the notes of specie-paying institutions.³ The years 1815-19 were prolific in banks, many of them established on sums of money barely sufficient to buy plates and paper for printing notes. A petition to Congress by Alabama land debtors alluded to the recent establishment of seventy new banks.⁴ In 1815 and 1817 no less than twelve banks of issue were established in Tennessee.⁵ The legislature of Kentucky, at the session of 1817-18, chartered forty banks,⁶ and in 1820, as a relief measure for their victims, established the Bank of the Commonwealth of Kentucky.⁷ The Secretary of the Treasury, W. H. Crawford, in 1820 said :

Banks have been incorporated not because there was capital seeking investment ; not because the places where they were established had

¹ Flint, *Recollections*, p. 199.

⁴ State Papers, Public Lands, IV, 805.

² Niles's *Register*, XVI, 386 ; State Papers, Public Lands, V, 377-8 ; VI, 10.

³ State Papers, Finance, III, 263.

⁵ Phelan, *History of Tennessee*, p. 259.

⁶ Sumner, Andrew Jackson, p. 120.

⁷ *Ibid.*, p. 124.

commerce and manufactures which required their fostering aid ; but because men without active capital wanted the means of obtaining loans which their standing in the community would not command from banks and individuals having real capital and established credit.¹

The note circulation of the country increased from forty-five million dollars, in 1812, to one hundred million dollars in 1817.² To get their notes into circulation, the banks competed in offering borrowers favorable terms. As a consequence, the use of credit was greatly extended and an upward impetus was given to prices. This in turn encouraged all to get into debt, and sharpened the public appetite for still further issues of bank notes. The scrip issued in settlement of the Yazoo claims likewise increased the rage for land speculation, as it was receivable in payment for Alabama and Mississippi lands.³ Of \$4,691,784.38 received for Alabama lands during the four and a half years preceding June 30, 1820, \$2,100,892.44 — over forty-four per cent — were Yazoo landscrip.⁴

The volume of western emigration ebbed and flowed with prosperity in the older states. Indian uprisings on the frontier sometimes checked its flow ; but it always regained its ground, and at times the highways were thronged with families moving to the West.⁵ This movement denoted the growth of a nation seeking its economic ends along the line of least resistance, but occasionally it became so vast as to alarm the Atlantic states. In 1815 a legislative committee, in a report to the legislature of North Carolina, said :

Within twenty-five years past, more than two hundred thousand of our inhabitants have removed to the waters of the Ohio, Tennessee, and Mobile ; and it is mortifying to witness the fact that thousands of our wealthy and respectable citizens are annually moving to the West . . . and that thousands of our poorer citizens follow them.⁶

¹ State Papers, Finance, III, 494.

² Sumner, *History of American Currency*, p. 80.

³ State Papers, Public Lands, II, 877-887 ; IV, 805 ; V, 377 ; VI, 10, 12, 52 ; Hildreth, *History of the United States*, II, IV, V, VI ; McMaster, *History of the People of the United States*, III, 131, 132.

⁴ State Papers, Public Lands, V, 385.

⁵ McMaster, *op. cit.*, IV, 381-388.

⁶ Niles's *Register*, 1816, IX, Supplement, p. 165.

In the following year a similar feeling was expressed in a report to the Virginia House of Delegates.¹ During 1810–20 the population of the states and territories organized out of the public domain increased from 671,804 to 1,653,147—nearly two and one-half times.² As a consequence, in the decade ending with 1820, seven states entered the Union—a number greater than in any decennial period before or since.

Lastly, in offering the public lands at auction to the highest bidder, instead of at a fixed price, the government threw wide open the door to speculation. Competition among buyers forced the price to the upmost limit, and under the impulse of the moment men made the most extravagant offers. No doubt speculation would have seized upon the land in any event, but the auction system promoted it by permitting it to enter so early into the sales.

The seed of industrial ruin having been sown, the harvest was close at hand. During the four years ending with 1818, the debt due from individuals for public lands had increased from \$3,042,613.89 to \$16,794,795.14.³ Failure to meet payments became so common that the receipts consisted chiefly of the first instalments on the annual sales.⁴ In seven years ending September 30, 1818, the reversions aggregated 698,336 acres,⁵ and in eighteen years the forfeitures amounted to \$402,855.75.⁶ Relief acts were passed almost yearly. Niles's *Register* said: "The statute book is disgraced by such acts; we would seriously advise the passage of an act directing that the debtors for lands should satisfy their debts sixty days after it is convenient."⁷ In the early part of 1818 the Secretary of the Treasury, in self-defense, instructed collectors and receivers of public money to receive nothing in payment of duties, taxes and public lands but current specie and bills of banks main-

¹ Niles's *Register*, 1816, IX, Supplement, p. 150.

² The more noteworthy increases were: Ohio, 230,760 to 581,434; Indiana, 24,520 to 147,178; Illinois, 12,282 to 55,211; Missouri, 20,845 to 66,586; Mississippi and Alabama, 40,352 to 203,349; Louisiana, 76,556 to 153,407; Tennessee, 261,727 to 422,813.—*Ibid.*, 1822, XXI, 346.

⁵ *Ibid.*, p. 420.

³ State Papers, Finance, III, 718.

⁶ *Ibid.*, IV, 911.

⁴ *Ibid.*, Public Lands, III, 419.

⁷ 1821, XXI, 277.

taining specie payments.¹ This added to the embarrassment of the land debtors. Then came the panic of 1819. Early in that year

the price of all articles produced in the western states fell so low as scarcely to defray the expense of transportation to the ports from whence they were usually exported to the foreign markets. This condition of things, which had not been anticipated when the debt for the public lands was contracted, produced the most serious distress at the moment, and excited alarming apprehensions for the future.²

The price of cotton fell more than fifty per cent.³ Growers endeavored to recoup themselves by planting a larger acreage, but this only drove the price still lower, until it had fallen more than twenty cents per pound. In Alabama, where cotton was the sole dependence for cash, this meant widespread ruin.

Many banks, too tedious to mention, [shut] up shop, leaving the little circle in which their notes were received, in a state of *wonderment* that a bank should break. . . . Begotten in iniquity, they died in corruption.⁴

The note circulation of \$100,000,000 in 1817 dwindled to \$45,000,000 in 1819. Professor Sumner says:

Stagnation and distress lasted throughout 1820. Prices were at the lowest ebb and liquidation went slowly on. Wheat was at twenty cents per bushel in Kentucky. A man in Western Virginia stopped Niles's *Register* because one barrel of flour used to pay a year's subscription; now three barrels would not. At Pittsburg, flour was \$1.00 per barrel; boards twenty cents per hundred; sheep, \$1.00.⁵

All this was disastrous to land debtors. The reversions in 1819 amounted to 365,020 acres — two and four-tenths times as much as in any year preceding.⁶ In addition to the instalments which fell due upon the sales of former years, the amount

¹ State Papers, Finance, III, 263; Public Lands, IV, 2.

² *Ibid.*, Finance, III, 718; see also Flint, *Recollections*, pp. 247-248.

³ State Papers, Public Lands, IV, 805; VI, 12.

⁴ Niles's *Register*, 1820, XVIII, 364; see also Flint, *Recollections*, p. 212.

⁵ Sumner, *History of American Currency*, p. 82.

⁶ State Papers, Public Lands, III, 420.

paid into the treasury lacked \$1,146,000 of the legal minimum payable on the land sold that year.¹ The balance due in 1820 amounted to \$21,213,350.17 — more than one-fifth of the national debt. Of this vast sum fifty-two per cent rested upon Alabama lands, and this was \$8,500,000 in excess of the debt for the same number of acres in other states.²

The time was now ripe for action, and the remedy applied by Congress was twofold: First, the repeal of the credit system; second, provision for the liquidation of the debt. The latter without the former would have aggravated the trouble. The stock arguments against repeal were, that without credit men of small means could not become purchasers and that the growth of the West would be retarded.³ The law of 1820, in providing for cash sales, met this by so reducing the price per acre and the minimum tract subject to purchase that, while eighty dollars were required for the first instalment on a quarter section, one hundred dollars would pay in full for a half quarter. This measure passed the House by a vote of one hundred and thirty-three to twenty-three; and in the Senate only seven votes out of a total of thirty-eight were cast against it.⁴ With the exception of one vote in the Senate and seven in the House, the opposition to cash sales came entirely from the West. It should not be inferred, however, that the trans-Alleghany states were a unit for the credit system: in fact, the total vote of their Congressmen showed a majority of one against it. Still, Western sentiment was such that the members who had voted for cash sales felt called upon to justify their course.⁵

To liquidate the debt was far more difficult than to abolish the credit system, and required nearly a dozen acts for its accomplishment. The first — that of 1821 — offered three plans of relief: First, relinquishment of a part of the purchase and application of the payments already made thereon to the

¹ State Papers, Public Lands, VIII, 2.

² *Ibid.*, IV, 795, 805.

³ Niles's *Register*, 1820, XVIII, 388; *Annals of Congress*, 1820, col. 1878-83.

⁴ *Annals of Congress*, 1819-20, 489; *Ibid.*, 1820, col. 1901.

⁵ *Ibid.*, 1820, cols. 1883, 1884.

part retained. Second, payment of amount due, less a discount of thirty-seven and a half per cent. This placed the public land debtors on an equality with purchasers after the abolition of the credit system; for at the time of that reform the minimum price per acre was reduced from two dollars to one dollar and twenty-five cents. Third, the privilege of a further credit.¹ For the benefit of those who failed to take advantage of these provisions they were reenacted in 1822 and again in 1823. Even then purchasers of 126,933 acres, on which \$103,806.58 had been paid, were unprovided for.²

Within seven months after the passage of the first act, or by September 30, 1821, the balance due fell to \$11,957,430.39 — nearly fifty per cent. During the following year there was a further decline to \$10,572,378.61. This marked encouraging progress. In the next eighteen months, however, the debt decreased but \$351,104.61. Moreover, under the act of 1821, further credit had been taken on 3,588,558 acres, upon which there was a balance due of \$6,740,358.18. Ninety-two per cent of this rested on land upon which but one-fourth of the purchase money had been paid.³ Such a heavy indebtedness rendered reversions and forfeitures inevitable, and some further plan of liquidation was evidently necessary. This was the purpose of the acts of 1824 and 1826,⁴ which enabled those who had taken an extension of credit to complete payment by either of the plans offered in 1821.⁵ As a consequence, the debt declined successively to \$7,955,831.03 on December 31, 1825, and \$4,305,365.28 on September 30, 1827. Still, liquidation was incomplete. Besides, in the eight years ending with 1829, 687,384 acres, on which further credit had been given, reverted and \$741,290.71 were forfeited.⁶

¹ Annals of Congress, 1820-21, Appendix, 1795, *seq.*

² State Papers, Public Lands, IV, 770. ³ *Ibid.*, III, 630, 645; IV, 795.

⁴ Annals of Congress, 1824, Appendix, pp. 3219, 3231, 3232; 1825-26, Appendix, pp. xii, xiii.

⁵ The acts of 1822 and 1823 had done this, but they did not require the relinquishment of enough to enable payment to be made in full.

⁶ State Papers, Public Lands, IV, 911; V, 3, 802; VI, 18. Seventy-five per cent of the forfeitures were in Alabama, and eighty per cent of the remainder were distributed about equally in Ohio, Indiana and Illinois.

It was apparent that further legislation was needed, and Congress passed the acts of 1830 and 1831. These applied to lands which had reverted after extension of credit. The principal feature of the former act provided for liquidation by abatement. By this method titles were completed upon payment of one dollar and twenty-five cents per acre in addition to that already paid — the total not to exceed three dollars and fifty cents per acre.¹ Purchasers of high-priced lands were the chief beneficiaries of this provision. The act of 1831, therefore, declared purchasers at less than fourteen dollars "entitled to patents . . . in all instances where one dollar and twenty-five cents, or a greater sum, per acre, shall have been paid," or where payment to that amount should in the future be made. The act of 1830 also authorized the issuance of certificates for the amount forfeited on reverted lands, which had sold at not to exceed two dollars and a half per acre, and made these certificates receivable in payment for public lands. The act of 1828 had made such a provision, but only for cases where further credit had not been taken.²

To sum up the results of all this legislation, seventy per cent of the debt was liquidated by relinquishment of land (4,602,573 acres); fifteen and two-tenths per cent by cash and discounts; six and four-tenths per cent by abatement; and the remainder either through cancellation of indebtedness on land, upon which certificates for forfeitures were issued, or by cash incidental to abatement, or by cash without discount on instalments, or by reversions.³ The purchase price of land relinquished averaged higher than that of land retained. Under the laws of 1821, 1824 and 1826 the prices per acre, respectively, were as follows :

	ACT OF 1821.	ACT OF 1824.	ACT OF 1826.
Relinquished	\$3.54	\$2.90	\$3.14
Retained	3.11	2.53	2.34

Under the credit system the government sold 19,399,158 acres for \$47,689,563.09; but, owing to reversions and relin-

¹ Congressional Debates, 1829-30, Appendix, xiii.

² *Ibid.*, 1830-31, Appendix, 17; 1827-28, Appendix, xxiii. State Papers, Public Lands, V, 12.

³ *Ibid.*, VI, 11, 18, 456; IV, 795.

quishments, it parted title with but 13,642,536 acres, for which \$27,900,379.29 were received.¹ The system was at its worst in Alabama; for there of 3,999,245 acres sold, 1,842,535 were relinquished — nearly three times as great a percentage as in the other states.²

The evils of the credit system, as exhibited above, were doubtless aggravated by various circumstances peculiar to the time and place: the primitive condition of transportation, the slowness of social development, depredations by Indians, crop failure and ill-health, and fluctuations in commerce.

(1) The means of transport were about the same as in mediæval Europe. Except upon the large rivers and their principal tributaries, there was no outlet for the immense production of which the West and the South were capable. Along many streams the movement of commodities had to wait for the winter and spring freshets; and if the waters did not then rise high enough, there was no channel open to a market. Industry and commerce were thus dependent upon the caprice of nature, and great fluctuations in prices resulted from the alternation of over-supply and under-supply.³ To men of small means, such as these early settlers, steadiness of income is of paramount importance; as the chance of occasional gain affords inadequate compensation for the risk of occasional loss.

The cotton fields of Alabama were so remote from the New Orleans market that it was impossible to receive returns till February.⁴ To go by water from Pittsburg to New Orleans required two months and a half, and the voyage back was doubly tedious. Twenty and thirty days, respectively, were required from New York and Philadelphia to Columbus, Ohio, and shipments between these points cost two dollars and a half and five dollars per hundred.⁵ The rate on tobacco, Sandusky to New York, was fourteen dollars per ton; on cotton, Nashville to Baltimore, eight dollars per bale.⁶ According to

¹ Donaldson, *The Public Domain*, p. 203.

² State Papers, Public Lands, V, 385; VI, 456.

³ Flint, *Recollections*, p. 247; Roosevelt, *The Winning of the West*, IV, 225.

⁴ State Papers, Public Lands, VI, 11, 51.

⁵ Niles's *Register*, 1826, XXXI, 38.

⁶ *Ibid.*, 1827, XXXII, 308, 323.

McMaster, the average cost of transporting goods in 1812 was ten dollars per ton per hundred miles; while in 1896 the cost was eighty cents.¹ To carry a bushel of wheat or corn to market from many places was more expensive than to grow it. As a consequence, the margin of difference between prices at the points of production and consumption was very large. The price of corn, for example, July, 1816, ranged from twenty-five cents per bushel at Chillicothe and Portsmouth, Ohio, to one dollar and twenty-five cents at Lower Sandusky; that of flour, from four dollars and twenty-five cents to fifteen dollars per barrel; and that of bacon from ten to thirty-one cents per pound. A similar disparity existed between inland points and the seaboard. Often, indeed, the bulkiness of commodities made the cost of transportation practically prohibitive. Prices to producers were, therefore, at times ruinously low. In Indiana and Illinois wheat was hardly worth twenty-five cents per bushel in 1825; corn and oats, barely eight or ten. A few years later cotton was dull at six cents per pound.²

(2) Again, with the early pioneer, time was an important factor in the achievement of results, and a more rapid rate of progress would have sometimes turned the scale in his favor. There was a scarcity of capital. The resistance to travel made social development relatively slow, when a journey of fifty miles meant more than one of ten or twenty times that distance now. The rapid growth of towns and cities was, therefore, impossible. In 1800 the urban population of the country was but three and nine-tenths per cent of the total; by 1810 it had increased to only four and nine-tenths per cent; and during the next ten years it merely held its own. While the total population from 1800 to 1820 increased eighty-one and four-tenths per cent, the average density of settlement increased but nine and one-tenth per cent. Cincinnati and New Orleans were, in 1820, the only cities of more than eight thousand in the entire West.³ In no respect has the settlement of the newer American common-

¹ Statistics of Railways in the United States, Interstate Commerce Commission, 1896, p. 83. ² The foregoing figures are taken chiefly from Niles's *Register*.

³ See Eleventh Census, Population, Part i.

wealths differed more from that of the older than in the rapidity of urban development. "The wilds of Minnesota and Nebraska, by the agency of steam, are at once transformed into the settlements of a commercial and civilized people."¹ Measured by the cost of transportation, the lapse of ten years has within the last three decades moved whole states much nearer to market. The first thirty years of the century were, however, marked by comparatively few such changes.

(3) Many settlers were also subject to Indian depredations and occasionally were "entirely deprived of making crops."² During the War of 1812 the Indians were unusually predatory. The losses inflicted upon the citizens of Missouri alone were estimated by the war department at \$33,504.60.³ Flatboatmen returning from points on the Mississippi River were frequently killed. Scarcely less dangerous were "the so-called pirates, gangs of outlaws and desperadoes of all nations who infested the Mississippi from New Madrid down, and who preyed indiscriminately upon all who fell in their way."⁴ French and British cruisers also frequented the waters of the Gulf and were always ready to pounce upon the ships of neutral powers.

(4) Nor were the people of the West exempt either from crop failure or ill-health. The corn crop was now and then destroyed by squirrels or caught by an early September frost. The wheat crop also was at times a failure. Fevers of various kinds — especially those peculiar to a new country — scourged the settlements again and again.⁵ To men unencumbered by debt and possessed of accumulated resources, such reverses are unattended with serious results; but to the early settler, in debt for his land and without means to tide over adversity, they meant all the difference between hope and despair.

(5) Moreover, fluctuations in commerce repeatedly emphasized the shortcomings of the credit system. The effect of the Non-Importation and Embargo Acts is a case in point.

¹ Ramsey, *History of Tennessee*, p. 715.

² State Papers, Public Lands, II, 888; see also pp. 256, 730 and 1898.

³ Senate Document, 55, March 6, 1826, 19th Congress, 1st Session.

⁴ Phelan, *History of Tennessee*, pp. 177, 178.

⁵ Roosevelt, *op. cit.*, IV, 240.

At a moment's notice President Jefferson bade foreign commerce to cease. American produce, wheat, timber, cotton, tobacco, rice, dropped in value or became unsalable; every imported article rose in price; wages stopped; swarms of debtors became bankrupt.¹

The exports of cotton fell from more than sixty-six million pounds in 1807 to barely twelve million pounds in 1808.² The ninety-day embargo of 1812 caught the crops of the interior unsold.³ No experience could better emphasize the dependence of mankind for a livelihood on current production. "The failure of two successive crops to find a market threatened beggary to every rich planter from the Delaware to the Sabine."⁴ The Napoleonic wars and decrees, the British orders in council and the War of 1812, with its blockade, were attended with similar results; and legal impediments to the recovery of debts — such as stay laws — here and there still further complicated the situation.⁵

The foregoing pages point to but one conclusion: that the sale of public lands on credit was a disastrous failure. It introduced antagonistic interests between government and citizen. The rapid growth of the debt, and especially of default in payments, soon attracted the attention of thoughtful observers. The system engulfed large numbers in hopeless debt and called for the repeated intervention of the government, to save men from the consequences of their own acts. Laws for this purpose were in force during nearly half the lifetime of the credit system; and even then reversions and forfeitures were not uncommon. Instead of subserving the interest of the treasury, it yielded to the government an ever-widening stream of uncollectible claims, and fully twelve years were required to clear away the wreckage which this left in its wake.

The credit system also promoted the wild speculation in Western lands which preceded the panic of 1819. When the

¹ Henry Adams, *History of the United States*, IV, 277, 278.

² M. B. Hammond, *The Cotton Industry*, Part i, 240.

³ Randall, *Life of Jefferson*, III, 329.

⁴ Henry Adams, *op. cit.*, IV, 282.

⁵ State Papers, Public Lands, I, 909.

only prerequisite to becoming a purchaser was the ability to make the first payment, many a settler expended his last cent in this operation, relying upon the produce of his industry to meet instalments as they should fall due. Further, credit fired the imaginations of men and led them to offer prices greatly in excess of cash values. The system may have hastened the settlement of the West, but subsequent history has shown that this end could have been attained by other means fully as effective and unattended with so many evils.

It is true that a better system of credit might have been devised. If half the purchase money, in place of one-fourth, had been required in cash, or if security other than the land had been exacted, the results would have been less disastrous. The scarcity of other forms of property, however, rendered the latter provision hardly feasible. It is certain, moreover, that the system would have worked better, if conditions had been other than they were ; but it was lack of adaptability to unforeseen emergencies that constituted one of its greatest defects. One thing after another happened, in season and out of season, to emphasize its imperfections, until finally the panic of 1819 completely broke it down. In recommending its repeal in 1819, the Senate committee on public lands said :

It can not be correct policy to persist in the continuation of a system so much affected by circumstances as that under consideration, which requires the frequent aid of mitigating expedients to preserve its existence, and to prevent its oppressive effects on a considerable portion of the community. . . . Judging from the experience of the past, without any assurance of a more favorable state of things in the future, it may be concluded that the system of credit is not well adapted to the circumstances of the country, and will be injurious so long as commerce is liable to fluctuation.¹

II.

As to government loans to the people at the present time, the moral of our study is highly unfavorable. That social

¹ State Papers, Public Lands, III, 413.

experimentation is frequently inconclusive, is doubtless true.¹ The sale of public land on credit was, however, such a hopeless failure that it is almost impossible to break its moral effect. More efficient transportation has, no doubt, removed one cause of fluctuations in prices and has done away with much of the uncertainty in finding a market. Moreover, the farmer of to-day has ampler means, and is better prepared to meet adversity than was the pioneer. Nevertheless, many of the difficulties with which the latter contended yet remain. Inelasticity of demand and inability to adjust supply to the wants of consumers still render changes in prices sudden and extreme. While the cost of transport has been greatly reduced, the result has been a levelling down of prices to the consumer rather than a raising of them to the producer. Prices in gold for farm products in Iowa for the ten years ending with 1892 were about the same as for the ten years ending with 1870, but prices in New York had greatly declined. Furthermore, the extension of transportation throughout the world has greatly increased the sharpness of competition. Man's tendency to become over hopeful at times and to engage in hazardous speculation has in no wise diminished, and panics and fluctuations in credit have, if anything, become more marked. Nor is it probable that the rapid increase in land values that has occurred since 1870 will be repeated in the future. Even during the last fifteen years, appreciation in the newer states has been partly offset by depreciation in the older. If the government had been lending money on mortgage, its losses in western Kansas and Nebraska since 1885 would have been fully as much as those of private investors, and the net gain in the

¹ Thus, the Land Purchase Acts for promoting peasant proprietorship in Ireland appear to work fairly well. Under these acts the state makes advances to the peasants for the purchase of their holdings. In 1885 and again in 1887 Parliament voted five million pounds for this purpose. More than twenty-five thousand tenants have become owners, and the total arrears on March 31, 1896, amounted to but 4389 pounds. Time enough has not elapsed, however, to determine the ultimate outcome. In any event, conditions in Ireland are very unlike those in the United States, and our own experience is a much safer guide to follow. — See "Land Purchase in Ireland," *Nineteenth Century*, 1896, XL, 829-837; also *The Nation*, 1894, LVIII, 118.

value of its security, therefore, would not have been large. More than this : an increase at one place would have afforded no compensation for a shrinkage at another ; for the former would merely have protected the government against loss, while the latter would here and there have necessitated foreclosure ; and it is highly improbable that a government which so signally failed in dealing with those in arrears for purchase money would be more successful now in dealing with foreclosures. While, therefore, conditions have in some respects changed, the arguments which in 1820 brought about the repeal of the credit system still in the main hold good.

Furthermore, the policy of government loans is open to objections from which the credit system was exempt. Among these is the difficulty of devising efficient administrative machinery. Loaning money upon property at a conservative valuation calls for the exercise of sound judgment, and few functions are less adapted to governmental activity. It is, of course, conceivable that the banking institutions of the country might be turned into government agencies. If the rate of interest, however, were fixed at two per cent, the appetite to borrow would be almost insatiable ; and, unless discretionary power were given the administrative authorities to lower and raise the rate, the normal supply of loan funds would either greatly exceed or fall far short of the demand. Besides, if loans were restricted to owners of farm produce and realty, an unhealthy boom in these forms of property would be sure to take place.¹

The most serious objection, however, appears from a monetary standpoint. Additions to the circulation are occasionally required, but in the long run they are effects rather than causes of industrial activity. The policy in question, however, assumes just the reverse to be true. The demand of the Omaha platform for the speedy increase of the circulating medium to not less than fifty dollars *per capita* admits of no other interpretation.² It is significant, also, that the framers of this platform were almost without exception avowed advocates of irredeemable paper. Such movements deny or ignore the fact that the

¹ McVey, *The Populist Movement*, Economic Studies, I, 168. ² *Ibid.*, p. 163.

supply of money, under the modern system of production, is automatically adjusted to the demand. In truth, when there is a deficiency, forces are set in motion which increase the supply; and when there is an over-abundance, production declines. While the output of gold is now and then increased by exceptional finds, the large stock in existence steadies its value, and the supply is regulated in much the same way as is that of commodities in general. Moreover, mining has turned more and more to the reduction of ores of ascertained yield, and the annual product has become much less a matter of chance.

When times are hard, nevertheless, the conviction takes root that the law of automatic adjustment does not apply to money, and the public is easily led to believe that every fall in price is assignable to a monetary cause. What industry really needs is capital in the shape of raw materials and machinery, and a scarcity of these forms of wealth is frequently mistaken for a lack of means of exchange. Under such circumstances, a movement for inflation is apt to arise. Beyond doubt this was one of the most potent forces back of the demand for the free coinage of silver at 16 to 1. The remarkable increase in the production of gold, however, has removed all doubts as to an adequate supply, and has left the silver movement without any reasonable ground upon which to rest. It has also enforced the lesson that the real problem of the farmer is to produce something to exchange, and that the supply of gold for this purpose may safely be trusted to take care of itself. The rapidity with which the people of the West, notably of Kansas,¹ have reduced their mortgage indebtedness within two years, is sufficient to show that the farmer can spend his time more profitably than in talking and voting for the free coinage of silver and irredeemable paper. Since 1896 cotton is almost the only great staple that has sold unusually low, and the obvious reason of its exceptional position is that the crops of 1897 and 1898 were abnormally large.² Probably no one would

¹ Franklin Matthews, in *Harper's Weekly*, January 29, 1898, pp. 113, 114.

² Growers have annually met and resolved to reduce the acreage planted, but many have returned home and increased their own, on the presumption that

claim that our monetary system is without its defects, but they are those which arise from a lack of banking facilities rather than from a scarcity of redemption money. Branch banks would assist in a better distribution of the currency, and the right of issue upon general assets would impart elasticity to it.¹ These are the propositions, however, which those who clamor loudest for government loans declaim against most violently.

Within four or five years the demand for such loans has lost much of its strength. The leaders of the agitation soon turned to advocate the free coinage of silver, believing that therein lay a better prospect of immediate success. They saw that this movement would receive some support from those who believed in a convertible currency, and they looked upon it as the initial step to unlimited paper issues. The effect of this policy was, however, to divert attention from the ultimate end; while repeated defeats have dampened the ardor of the inflationist movement. Moreover, the movement was the offspring of discontent, some of it resting upon real, some of it upon imaginary, grievances — and the latter were the more influential in its spread. The suspicion was rife that some monstrous conspiracy transferred the fruits of labor to those who do not work, and the belief was more or less general that those successful in the acquisition of wealth were the cause of poverty and want. Resting in part upon so shadowy a basis, the movement inevitably declined, especially when the return of better times effected a substantial improvement in actual conditions. Moreover, the recent war with Spain and the questions growing out of it have come to occupy a prominent place in the public mind and have crowded out the Populists' demands.

All attempts to render it as easy for a farmer to obtain as others would curtail. The "hand-to-mouth" existence of many producers and the system of credit that has developed since the war are also responsible for overproduction. Cotton readily commands cash, and is practically the only crop upon which growers can secure advances from the merchants who furnish supplies. The fact that no other crop will bear so well the neglect incidental to the methods of negro labor has also prevented a reduction in acreage. — Cf. M. B. Hammond, *The Cotton Industry*, Part i, Chap. v.

¹ M. B. Hammond, "The Southern Farmer and Banking Reform," *Sound Currency*, December 1, 1898.

loan of money as to borrow a "neighbor's wagon to haul a load of grain to town"¹ are doomed to failure. The lender of money parts with a property right, while the lender of a wagon parts merely with a possessory right.² In the one case, the borrower obligates himself to return not the identical, but similar pieces of money; in the other, he is obliged to return the thing itself, and the latter is loaned on easier terms, because the risk to the lender is less. Moreover, a wagon is seldom borrowed for longer than a week, while a farmer commonly procures a loan for not less than a year. The load a wagon can carry, also, is in no wise affected by the number in existence; but the more abundant the supply of money (demand remaining constant), the greater the number of dollars required to do a given work. What a man wants with money is purchasing power, and this varies inversely with the ease of acquisition. The existence of a class who have nothing but promises to give for the commodities of others depends upon other than mere monetary causes, and a deliberate inflation of the currency cannot but diminish the power which they desire.

An argument sometimes advanced is that, since the government furnishes the national banks with notes at one per cent a year, it should do as well for the farmer.³ The obvious reply is that these banks do not have a monopoly. Capital is free to enter or withdraw from the banking business, and with few exceptions the profits are moderate.⁴ The circulation is taxed only one per cent, but it is issued only upon deposits of government bonds. The abundance of other kinds of currency, the preference for credit in the form of deposits, and the low rate of interest, together with the premium on bonds, limit the volume of notes that can be profitably issued. Profits are derived far more from a large line of deposits than from the notes emitted. In many instances the investment in bonds does not exceed the minimum required by law. The institution that

¹ Post, "The Sub-Treasury Plan," *The Arena*, V, 348.

² MacLeod, *History and Practice of Banking* (fifth edition), I, 90.

³ Post, *op. cit.*, pp. 342-348.

⁴ Report of the Comptroller of the Currency, 1896, I, 620. The annual average profit for the ten years ending with 1896 was 7.47 per cent.

has built up what is probably the most profitable business in the entire country—the Chemical National Bank of New York—issues no notes at all.

The history of colonial currencies¹ contains much that is instructive upon the subject of our study. The favorite plan was to establish a "land bank," declare its issues a legal tender and loan them upon mortgage security. Massachusetts in 1714 authorized a "bank" of fifty thousand pounds, to be loaned at five per cent interest and one-fifth of the principal payable annually. The loans were extended from time to time, and at the end of thirty years some were still unpaid. Other issues followed, and depreciation became more and more marked. "Trade was afloat without moorings and steered by a compass which fluctuated with every issue of bills, and even with every vote or debate affecting those issues." In 1750 specie payments were resumed, at the ratio of eleven of paper to one of specie. In Rhode Island the appetite for paper money knew almost no bounds. Beginning with 1715, one "land bank" followed another in rapid succession, and by 1750 nine had been stated. Large emissions were also made in payment of the expenses of government and under pretense of replacing lost or destroyed notes. Each inflation led to another. Those who had received loans, as well as those who had not, clamored for more. In many instances interest and principal went unpaid. "Foreclosures were rare and did not pay for the trouble and excitement they caused." "New tenors" were occasionally emitted, exchangeable at the rate of one for three or four of the old. The number of tenors was "like a succession of manure heaps of different degrees of rottenness."² The mania became so general that Parliament in 1751 restricted, and in 1763 prohibited, paper issues by the colonies. With the Revolutionary War the flow of paper money started afresh, and during the years immediately following the policy

¹ For the facts see Weeden, *Economic and Social History of New England*, II; also Davis, "Currency Discussion in Massachusetts," *Quarterly Journal of Economics*, 1896-97, XI, 70-91 and 136-160; Sumner, *History of American Currency*; and Winsor, *Narrative and Critical History of America*, V, 167-76.

² White, *Money and Banking*, p. 128.

of government loans was tested to the bitter end. The experience, however, was not without fruit. Among the more important provisions of the federal Constitution is the prohibition of the issue of bills of credit by the states, and a clause expressly delegating this power to Congress was struck out in the constitutional convention by a vote of nine states to two.¹

The results of our study may be summarized as follows : The disastrous experiment of selling the public land on credit affords strong grounds for opposition to the project of government loans. Such lending, furthermore, is ill-adapted to become a function of government, and would promote the most reckless use of credit. The argument that gold is an appreciating standard can no longer be urged in favor of the plan. With a yearly output of gold greater than that of silver and gold combined in 1890, the prospect is that the yellow metal will fall rather than rise in purchasing power.

The plea for debtors against a standard alleged to be rising may be honorably and forcefully made ; but legislation to degrade a standard already favorable to debtors would be an undisguised swindle.²

Most important of all, this policy would almost inevitably lead to inflation and leave us with a currency redeemable in farms, cotton and wheat, instead of in specie — and redeemable only at the hands of those indebted to the government. The temptation to meet governmental obligations by special issues would be well-nigh irresistible. Once without anchorage to a commodity adapted to circulate as money, we should be adrift upon the sea of unlimited paper issues ;³ and debtors would be more or less indifferent about repaying loans which cost the government so little.

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¹ Madison, *Journal of Constitutional Convention* (Scott ed.), pp. 541-543, 620.

² Roberts, "The Increasing Supply of Gold," *The Forum*, February, 1899, p. 664.

³ See Hadley, *Economics*, p. 262 ; MacLeod, *History and Practice of Banking* (fifth ed.), Vol. ii, Chap. xiv.